



NEWS RELEASE

CALIFORNIA STATE TREASURER PHILIP ANGELIDES

FOR IMMEDIATE RELEASE

Wednesday, March 13, 2002

BOND REFINANCING SAVES STATE \$1 BILLION

Sacramento – The California State Treasurer's Office today sold general obligation refunding bonds which will save the State \$1.065 billion in debt service payments in the current and 2002-03 State budget cycles.

"The savings achieved through today's bond sale will help reduce the need for budget cuts in vital services such as education, health care and public safety. I am pleased that through this prudent strategy we are able to make a contribution toward balancing the State budget in a difficult time of record deficits," State Treasurer Philip Angelides said.

The sale is the first refinancing of existing debt to take place under the Treasurer's Strategic Debt Management Plan, which he announced in January 2002. Selected bonds previously scheduled to be repaid in fiscal year 2001-02 and fiscal year 2002-03 were refunded today. The next phase of refinancing will occur in 2003-04. Today's sale will save \$223 million in the current fiscal year, and \$842 million in fiscal year 2002-03.

The total near-term savings attributable to the Plan are projected to reach \$2.1 billion, once fully implemented in the year 2004. Other elements of the Plan include shifting new general obligation bond issues to level annual debt service, deferral of principal payments on selected bond issues, and issuance of variable rate debt.

The bonds were sold in a competitive sale, with Salomon Smith Barney, Inc. as the winning bidder. Other bidders included Morgan Stanley, Dean Witter and Merrill Lynch & Co. The total par amount of the bonds was \$1.105 billion, with a true interest cost of 5.1761%. The bonds are scheduled to close on April 2.

The three major rating agencies, Fitch, Moody's Investors Service, and Standard & Poor's, rated the bonds AA, A1, A+ respectively.

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STRATEGIC DEBT MANAGEMENT PLAN

GOALS

- **Reduce state budget deficit, to protect education, health care and other vital programs**
- **Free up borrowing capacity for critical infrastructure investments such as schools and transit**
- **Reduce overall costs to taxpayers**

STRATEGIC DEBT MANAGEMENT PLAN

GOALS

- Help reduce state budget deficit, to protect education, health care and other vital programs
- Free up borrowing capacity for critical infrastructure investments such as schools and transit
- Ensure the Plan reduces overall costs to taxpayers

THE PLAN

- Consistent with the practices of the majority of states, the Plan would structure the State's General Obligation bonds to shift towards level annual debt service (principal and interest), instead of the current practice of level annual principal payments.
 - Future bond sales would be structured to achieve level annual debt service, with principal payments deferred for four years after issuance on bonds issued between now and June 30, 2004.
 - Selected existing debt scheduled to be repaid between January 2002 and June 30, 2004 would be restructured to achieve level annual debt service, with principal payments deferred for four years after refunding.
- The Plan would institute a variable interest rate bond program as authorized by SB 997 (Chapter 522 of 1999) and SB 28 (Chapter 97 of 2001), both authored by Senator Jim Brulte. Currently, G.O. bonds are issued with fixed interest rates.

SAVINGS

- Total projected savings of \$2.1 billion by June 30, 2004 as follows:
 - \$223 million in fiscal year 2001-02
 - \$920 million in fiscal year 2002-03
 - \$964 million in fiscal year 2003-04
- The projected present value cost of the Plan, over the life of the bonds, is less than the projected present value costs of the State's current bond issuance practices.

IMPLEMENTATION

- Implementation of the Plan is dependent on enactment by the Administration and Legislature of a comprehensive plan to balance the budget and ensure fiscal stability; review by the credit rating agencies; and approval of the various General Obligation Finance Committees.

The vast majority of other states structure their General Obligation Bonds with level annual debt service¹

States Utilizing Level Annual Debt Service

1. Alabama
2. Arkansas
3. Connecticut
4. Florida
5. Georgia
6. Hawaii
7. Louisiana
8. Maryland
9. Massachusetts
10. Michigan
11. Mississippi
12. Missouri
13. Montana
14. Nevada
15. New Jersey
16. New Mexico
17. New York
18. Ohio
19. Oklahoma
20. Oregon
21. Rhode Island
22. South Carolina
23. Texas²
24. Utah
25. Virginia
26. Washington
27. West Virginia
28. Wisconsin

States Utilizing Level Annual Principal Payments

1. **California**
 2. Delaware
 3. Illinois
 4. Maine
 5. Minnesota
 6. New Hampshire
 7. North Carolina
 8. Pennsylvania
 9. Tennessee
 10. Vermont
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¹ States not shown do not have general obligation debt outstanding.

² Texas utilizes both level annual debt service and equal annual principal payments.

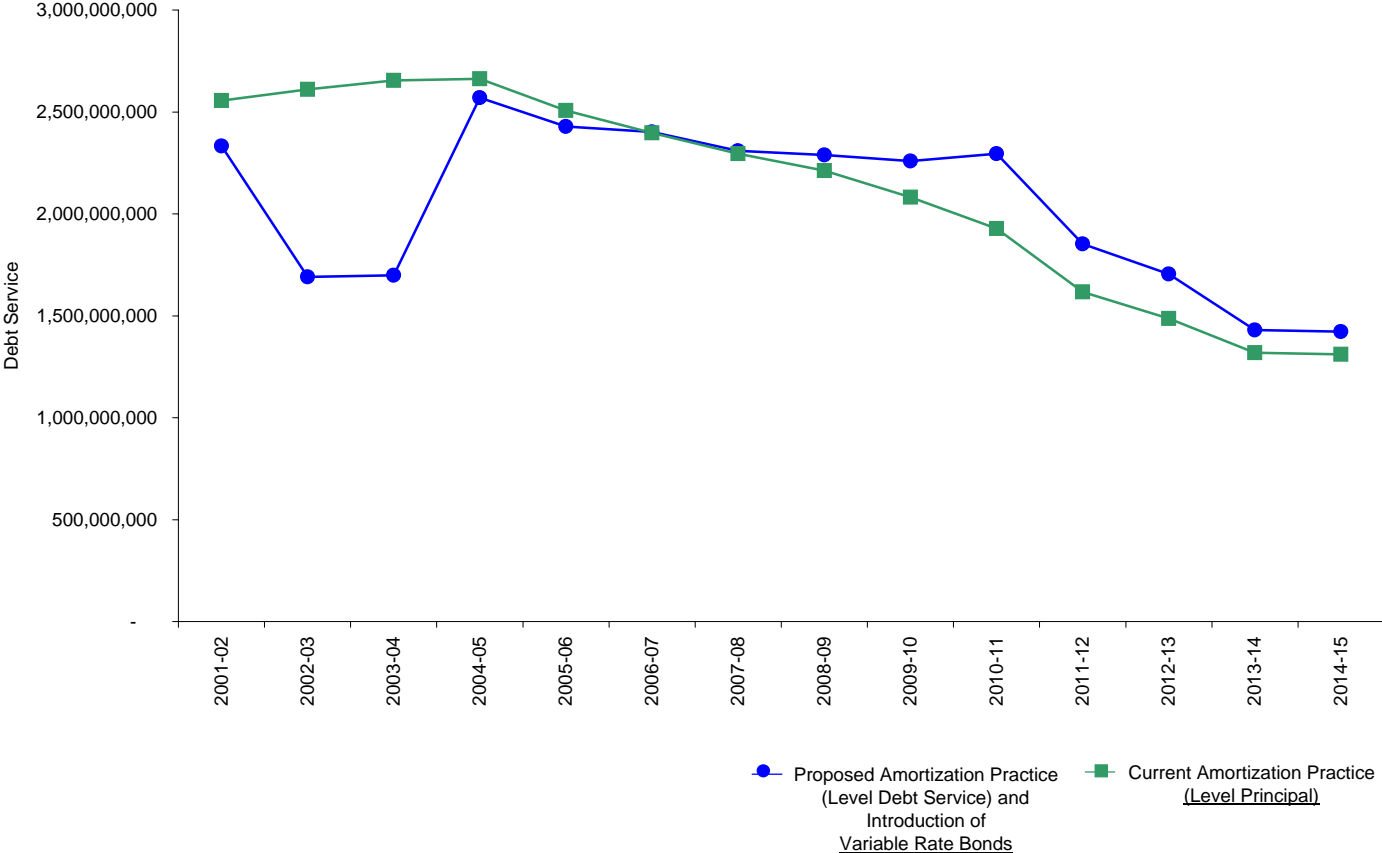
The Strategic Debt Management Plan

results in over \$2 billion in near-term savings

Strategic Action	Year 1 FY 01-02	Year 2 FY 02-03	Year 3 FY 03-04	Cumulative Total *
New Bond Issues – Shift to Level Debt Service	\$ 0	\$ 54,000,000	\$ 124,000,000	\$ 178,000,000
Existing Debt – Targeted Restructuring	223,000,000	866,000,000	832,000,000	1,921,000,000
Variable Rate Debt – Implement Legislation	0	0	8,000,000	8,000,000
Total *	\$ 223,000,000	\$ 920,000,000	\$ 964,000,000	\$ 2,107,000,000

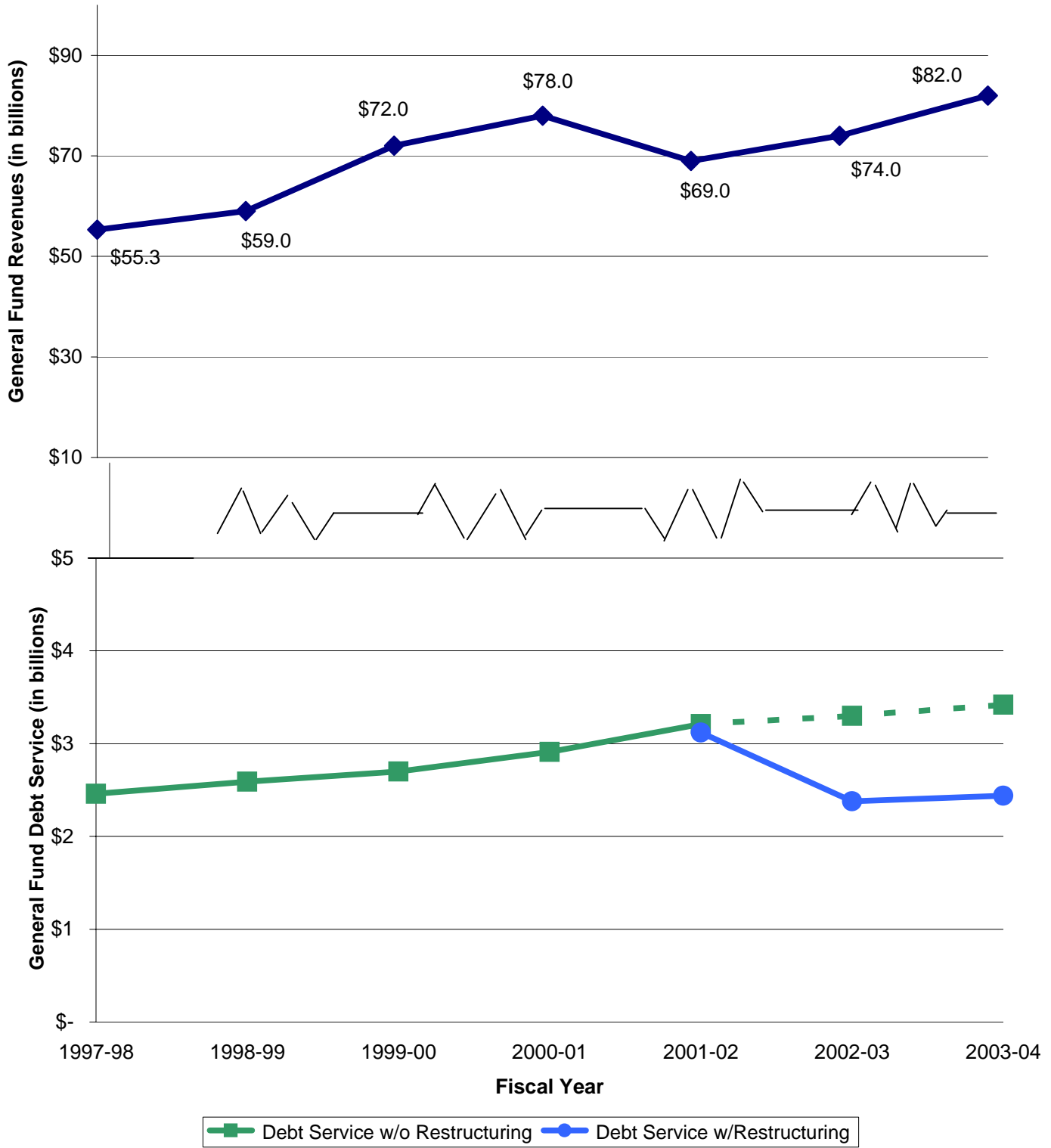
** Savings in the first three years are offset in future years. However, projected present value costs of the Plan are less than projected present value costs of the State's current bond issuance practices.*

The Strategic Debt Management Plan provides significant near-term savings, with offsets in future years. Overall, the Plan results in lower present value costs than current practices.

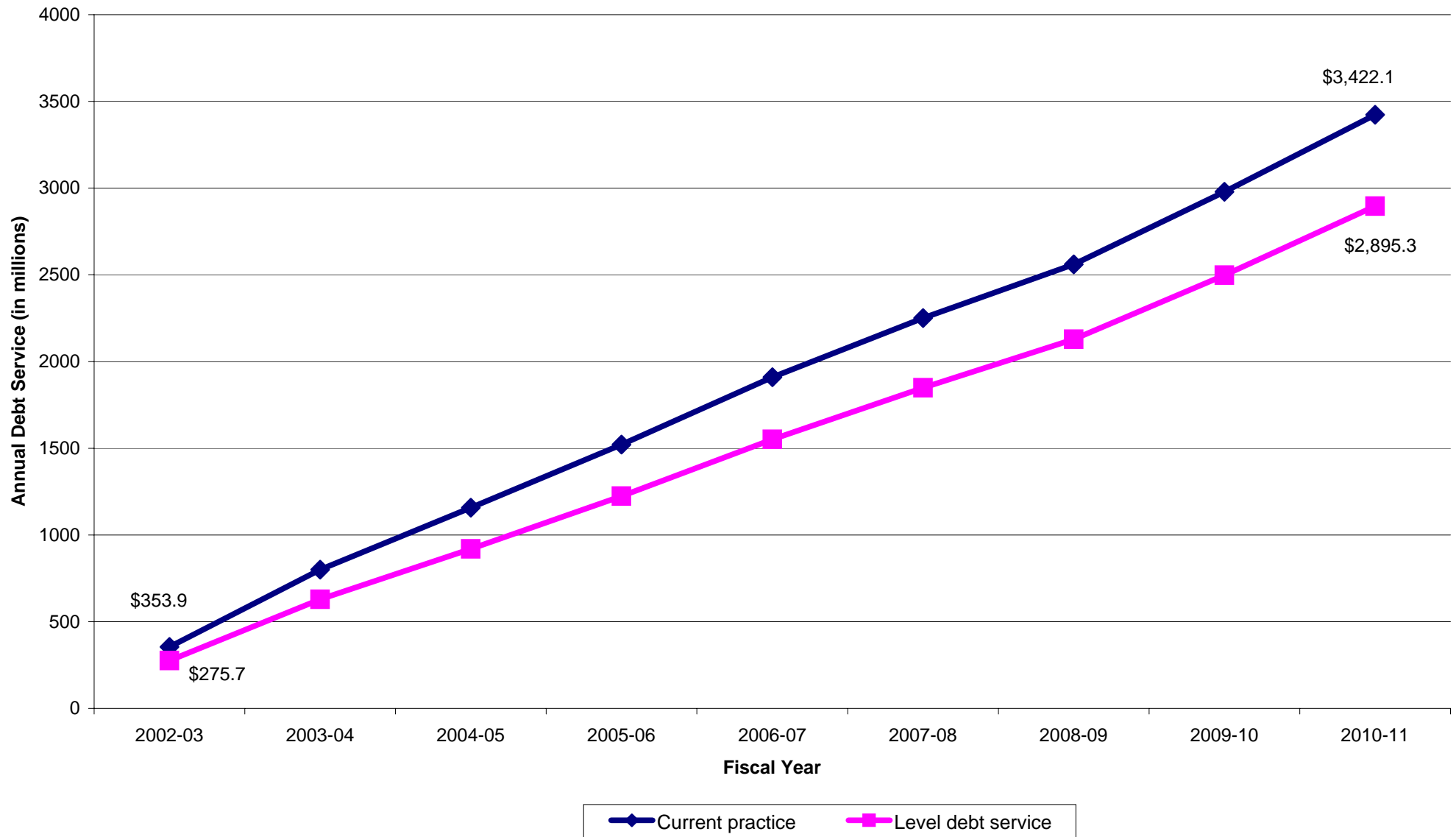


Present Value of Debt Service through 2014-15 >>	\$19,727,711,317	\$21,134,583,456
Present Value of Debt Service through 2033-34 >>	\$25,841,633,261	\$26,022,766,966

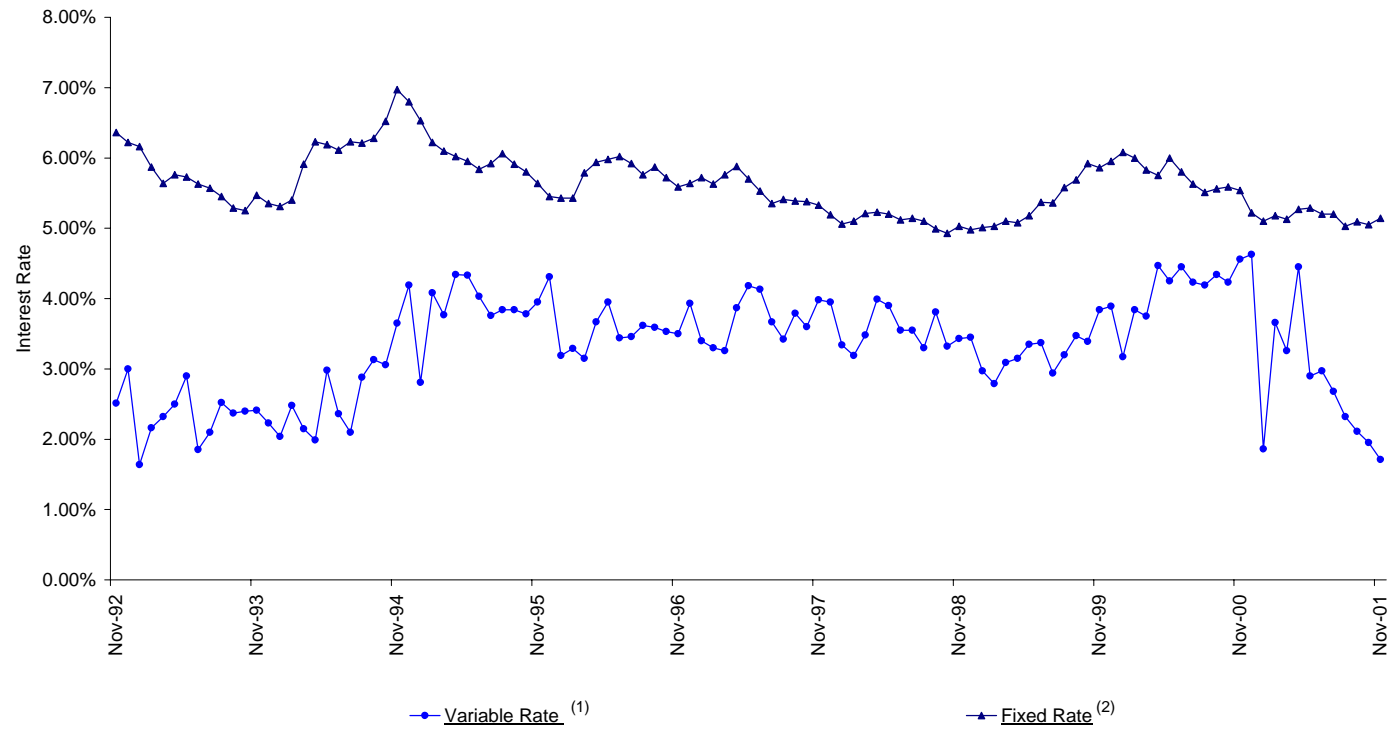
The Strategic Debt Management Plan tracks state revenue trends



**Issuing bonds with level annual debt service creates
more debt capacity over the next ten years than issuing bonds
with level annual principal payments**



Variable Rate Bonds have been consistently less expensive than Fixed Rate Bonds



⁽¹⁾ Bond Market Association Municipal Swap Index

⁽²⁾ 20-Year Bond Buyer General Obligation Bond Index

Long-term tax-exempt bond interest rates are at 30-year lows ⁽¹⁾



⁽¹⁾ Bond Buyer General Obligation Bond Index